

1 Interviewers were instructed to provide respondents, if necessary, a definition of
2 “traditional local telephone service” which emphasized that we were comparing
3 “local” service offerings and also sought to avoid any confusion between
4 “cordless” and “wireless” phones. Further to that end, when framing the
5 questions, we used the terms “cell phone” and “mobile cellular” which are widely
6 understood by consumers while I have used the term “wireless” throughout this
7 testimony. To avoid creating any possible bias on the part of respondents,
8 interviewers were unaware of the sponsor of the survey or its intended use.
9

10 **Q. WOULD YOU PLEASE SUMMARIZE THE RESULTS OF THE SURVEY**
11 **PRESENTED IN EXHIBIT HMS-3?**

12 **A.** The survey yielded a number of important results. First, 25 percent of wireless
13 phone users who use their wireless phones for personal calls said they did not have
14 wireline service at their home (Q4a). Of those, 58 percent said they disconnected
15 that service because they have a cell phone (Q5) As a gauge of substitutability
16 from another perspective, 70 percent of the personal use respondents who did not
17 have wireline service in their homes said that they would initiate wireline service in
18 their home if they did not have their wireless phone (Q7).

19
20 Similarly, 24 percent of respondents who use their wireless phones for business
21 purposes said they did not have wireline service at their business (Q4b). Of those,
22 19 percent said they disconnected wireline service because they have a cell phone
23 (Q6). About 45 percent of the business use respondents without wireline service
24 said that they would install and initiate wireline service in their office if they did not
25 have their wireless phone (Q8).
26

27 These findings demonstrate that wireless subscribers are substituting wireless
28 connections for wireline connections for local voice calling. The actual decisions
29 made by wireless customers should be considered along with the results of an

1 earlier survey of wireline customers in Iowa that Qwest sponsored (described in
2 Mr. McIntyre's testimony). That survey showed that 46 percent of all small
3 business and residence customers surveyed—including some of those who do not
4 currently have cell phone service—say they could substitute cellular service for
5 their household's wireline service.³³

6
7 The survey of Iowa wireless users also confirms the trends I have discussed about
8 the substitution of wireless usage for wireline usage. We asked both personal and
9 business users whether they made or received phone calls on their wireless phone
10 that they would have otherwise made from their home and office phones,
11 respectively. About 81 percent of those who use their wireless phones for
12 personal calls said that they made or received calls on their wireless phone that
13 they might otherwise make on their wireline phone at home (Q9). Of those
14 personal users who made or received calls on their wireless phone that they might
15 otherwise make on their wireline home at home, 73 percent indicated that about 50
16 percent or more of the calls they make or receive on their wireless phones would
17 have been made or received using their wireline phone at their homes if their
18 wireless phone were not available (Q11).

19
20 Similarly, about 65 percent of business users said that they make or receive calls
21 on their wireless phone that they might otherwise make on their wireline phone at
22 their business (Q10). Of those business users who made or received calls on their
23 wireless phone that they might otherwise make on their wireline phone at their
24 business, 73 percent indicated that about 50 percent or more of the calls they make
25 or receive on their wireless phones would have been made or received using their
26 wireline phone at their business if their wireless phone were not available (Q12).

27

³³ Scott A. McIntyre Statement of Position Exhibit SAM-11.

1 Finally, a significant portion of personal wireless phone users and business wireless
2 phone users give out *only* their wireless phone number to their contacts. For
3 personal users, that percent is 35 (Q13). For business users, that percent is 37
4 (Q14).

5
6 The point of all these observations is that, in addition to those Iowa consumers
7 who have elected not to subscribe to or have disconnected basic exchange service,
8 Iowa consumers are making and receiving calls on their wireless phones that they
9 would otherwise have made and received on their wireline phones. These users
10 see wireless calling as a *substitute* for wireline calling, not merely a *supplement*.
11 While these users may prefer using wireless phones for various reasons (e.g.,
12 portability), the fact is that they are using them as a substitute for basic exchange
13 service when they make or receive calls. This is further evidence consumers
14 consider wireless service as a competitive alternative to Qwest's basic exchange
15 services

16
17 **Q. YOU STATED THAT THE BOARD HAS GRANTED ETC STATUS TO**
18 **AT LEAST TWENTY-SIX WIRELESS PROVIDERS IN KEEPING WITH**
19 **THE NATIONAL TREND. WILL YOU PLEASE EXPLAIN WHAT**
20 **BEARING THAT HAS ON THIS CASE?**

21 **A.** Yes. Before a provider can qualify for status as an ETC, the Board's rules require
22 that the provider demonstrate that it offers the services supported by the federal
23 Universal Service Fund throughout its services areas. These services are:

- 24 1) voice grade access to the public switched network,
- 25 2) local usage;
- 26 3) appropriate network signaling;
- 27 4) single-party service;
- 28 5) access to emergency services (911 and E911);
- 29 6) access to operator services;

- 7) access to interexchange service;
- 8) access to directory assistance; and
- 9) toll blocking capabilities.

Beginning with Western Wireless in November 2000, the Board has approved at least twenty-six applications for ETC status filed by wireless providers in Iowa.³⁴ I note that the Board is considering rules that would allow wireless service providers to be designated as ETCs even though their service areas might not be coextensive with those of the wireline incumbents in part to “give more local service options to consumers.”³⁵ In my opinion, this demonstrates the recognition by the Board—although in a different context—that wireless service can—and does—provide a substitute for basic exchange service.

IV. MEETING THE STANDARD FOR DEREGULATION

Q. IN YOUR OPINION, DOES THE EVIDENCE YOU HAVE REVIEWED AND COLLECTED MEET THE STANDARD FOR DEREGULATION SET OUT IN IOWA STATUTE AND BOARD RULES?

A. Yes. Iowa Code § 476.1D (2003) provides for deregulation of communications services if the Board determines that the services are subject to effective competition. In making that determination, the Board *must* consider, among other factors, (1) whether a comparable service or facility is available from a supplier other than Qwest, and (2) whether market forces are sufficient to assure just and

³⁴ The stakes in being designated an ETC are considerable. For example, in the second quarter of 2003, the 11 wireless ETCs in Iowa received a total of just over \$20 million in High Cost Funds. See Universal Service Administrative Cost Support Projected by State by Study Area, Second Quarter 2003, Appendix HC01

³⁵ See Statement of Elliott Smith, Member of the IUB, In the Matter of Federal-State Joint Board on Universal Service, En Banc Hearing on the Portability of High-Cost Universal Service Support and the ETC Designation Process, CC Docket No. 96-45, FCC 03J-1 (July 31, 2003) at 4. I find this position difficult to square with that taken by the Board’s General Counsel in his letter to the Administrative Rules Committee in which he suggested that wireless was only a substitute for wireline service for “[s]ome college students” and asserted that “[t]he precise extent of [the] *apparent* substitution is difficult to measure.” See Letter of David J. Lynch to Mr. Joe Royce (August 29, 2003) at 2 (emphasis added).

1 reasonable rates without regulation. Under its own rules, the Board *may* consider
2 additional criteria which relate to the determination of effective competition.³⁶ In
3 my opinion, based on the evidence presented by Qwest and the evidence I am
4 presenting in this testimony related to wireless substitution, I believe the statutory
5 test has been met for both residential and business retail services.

6
7 **Q. WILL YOU PLEASE ELABORATE?**

8 **A.** Yes. Qwest has provided extensive evidence that CLECs are present and actively
9 offering services comparable to the retail services offered by Qwest that are the
10 subject of this proceeding. As described in Mr. McIntyre's Statement of Position
11 there are 54 CLECs who have certificates to provide local service within the 37
12 exchanges. Of these, 35 are actively providing services. The presence of these
13 CLECs in each of the seven groups of exchanges means that market forces can be
14 expected to constrain prices in the absence of regulation. Indeed, with these
15 competitors present, Qwest is *already* constrained in what it can charge its
16 customers for basic exchange services.

17
18 The presence of wireless carriers serves as an additional check on Qwest's pricing
19 of retail services. Wireless services provide an alternative to Qwest's retail
20 services for both business and residence connections, usage and features. As the
21 survey I discussed above confirms, a significant number of customers have already
22 discontinued—or never ordered—wireline telephone service. Any changes Qwest
23 makes in its retail rates will have to take into account wireless competition and
24 customers' ability to shift their voice calling to any one of several alternative
25 providers, especially as prices for these alternatives continue to decrease and their
26 capabilities expand. As Mr. McIntyre shows, some existing wireless packages are
27 priced comparably to popular wireline packages offered by Qwest. Moreover, the
28 price differences one observes between other wireline and wireless service

³⁶ § 199 IAC 5 6(1)

offerings are, for the most part, superficial. If one takes into account all of the vertical features, larger local calling areas and, in some cases, long-distance calling allowances built into wireless plans, the price points are quite comparable. Also, in order to make an “apples-to-apples” comparison, one has to take into account the additional value from features such as portability, same-day activation, and large local calling areas inherent in wireless service

Q. IN ITS ORDER INITIATING FORMAL NOTICE AND COMMENT IN THIS PROCEEDING, THE BOARD ASKS WHETHER CONSIDERING THE LACK OF E911, LOCAL NUMBER PORTABILITY, WIRELESS PRICING AND SERVICE QUALITY, WIRELESS IS EFFECTIVE COMPETITION. HOW WOULD YOU RESPOND?

A. I have two responses. First, I believe the premise of the question is flawed. To be considered substitutes, services or products do not have to be identical, functionally equivalent or even of equal quality. For example, cable television, satellite television and free-over-the-air television may differ in one or more of these respects and in the delivery technology, but can certainly be said to be in the same product market.³⁷ The Board recognized this in its Order deregulating local directory assistance when it held that “(a) comparable service does not require that the service be identical or even appear to be identical.”³⁸ As long as the services are alike in “substance” (that is, they permit the same function to be performed), they are comparable for determining if there is effective competition.³⁹

I also believe the facts implied by the question are wrong. As Mr. McIntyre discusses in more detail, wireless service does support access to 911, wireless

³⁷ See *Cable Holdings v. Home Video, Inc.*, 825 F.2d 1559, 1563 (11th Cir. 1987).

³⁸ *Order Deregulating Local Directory Assistance, Continuing Previous Grant of Waiver, and Requiring Notice*, Docket Nos. INU-00-3, WRU-99-8-272, WRU-00-88-272 (February 23, 2001) at 3.

³⁹ *Ibid*

1 number portability is due to take effect later this month, and wireless services are
2 priced comparably today with wireline service (including local exchange service).
3 While wireless and wireline service differ along some quality dimensions (although
4 less so with digital technology), the facts are that wireless usage is growing and an
5 increasing amount of substitution is occurring. If Qwest were to increase the price
6 of its local exchange service, I would expect this substitution to accelerate. This
7 suggests that wireless service does provide effective competition.
8

9 **Q. WHAT IF A PARTICULAR CUSTOMER OR SET OF CUSTOMERS**
10 **DOES NOT CONSIDER THE OFFERINGS OF THE MANY CLECS OR**
11 **OF THE NUMEROUS WIRELESS PROVIDERS AS A SUBSTITUTE FOR**
12 **QWEST'S BASIC EXCHANGE SERVICES?**

13 **A.** While Qwest has presented ample evidence that substitution is occurring, it is
14 sufficient that many, if not all, customers perceive that substitutes exist. To
15 determine which products or services are in the same market, it is not necessary for
16 *all* customers to view the services as completely interchangeable. Rather, services
17 are competitive substitutes if they "have the ability—actual or potential—to take
18 significant amounts of business away from each other."⁴⁰ For a firm to exercise
19 market power, it must be able to raise prices *profitably*.⁴¹ If a substantial number
20 of customers are aware of alternatives and would substitute a CLEC offering or
21 wireless service for Qwest's basic exchange service should Qwest increase the
22 price, Qwest cannot *profitably raise its prices* because it would risk losing those
23 customers.⁴² As a result, the fact that many customers have substituted—or would
24 substitute—away from Qwest's basic exchange services protects those customers
25 who may not view a CLEC's or wireless provider's offering as a "perfect

⁴⁰ *SmithKline Corp v Eli Lilly & Co.*, 575 F.2d 1056, 1063 (3d Cir.), cert. denied, 439 U.S. 838 (1978).

⁴¹ Michael L. Katz and Harvey S. Rosen, *Microeconomics*, Second Edition (Boston: Richard Irwin Inc., 1994) at 420, where the concept of substitutes is discussed.

⁴² These customers tend to be the most "valuable" precisely because they are more sophisticated and are higher volume users.

1 substitute” based on their particular preferences. It is also important to note that
2 in determining whether a service is comparable the Board must take into account
3 the fact that, in a competitive market, firms attempt to differentiate themselves and
4 their products as a means of winning customers. Thus, differences in form (i.e.,
5 whether a phone is connected to the wall or not) should not obscure comparability
6 in function (i.e., whether the customer can make and receive voice calls).⁴³

7
8 The existence of these competitive providers offering comparable services, coupled
9 with the ease of entry resulting from the implementation of the unbundling and 271
10 provisions of the 1996 Telecom Act, constrains Qwest’s pricing of basic exchange
11 service in the seven groups of exchanges. Dr. Solow addresses these and other
12 important aspects of economic theory that should inform the Board’s decision in
13 this case.

14
15 **V. SUMMARY**

16
17 **Q. PLEASE SUMMARIZE YOUR TESTIMONY.**

18 **A.** Local competition is intensifying nationwide. Incumbent LECs such as Qwest face
19 both *intramodal* and *intermodal* competition. Qwest has provided ample evidence
20 of both forms of competition for its residential and business retail services in the
21 seven geographic areas that encompass thirty-seven exchanges throughout the
22 State. This evidence includes the results of a survey of wireless customers that I
23 developed and oversaw demonstrating that consumers are substituting wireless

⁴³ Many producers engage in product differentiation, meaning that their products are placed in the market space according to their features, and different features would appeal to different consumers. In “vertical differentiation,” producers’ goods are unanimously perceived as distinguished by their quality differences, reflected in price differences. For example, a BMW and a Hyundai would be examples of two products that are vertically differentiated. In “horizontal differentiation,” producers place their products along a continuum based on differences in features that the relevant set of goods might have. Prices will likely vary among horizontally differentiated goods as well. A pickup truck and a passenger car would fit this model of differentiation, as would wireless and wireline services. See, for example, a brief explanation in Stephen Martin, *Advanced Industrial Economics* (Blackwell: 1993) at 261.

1 service for Qwest's retail services and substituting wireless usage for wireline
2 usage in instances where they have chosen to retain their wireline phone. In my
3 opinion, effective competition exists to protect customers and retail regulation can
4 be withdrawn as the statute provides.

5

6 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

7 **A.** Yes, it does.

Voter / Consumer Research
Final Questionnaire
Qwest Iowa—Wireless User Questionnaire

Hello, my name is _____ calling on behalf of Voter/Consumer Research, a national research firm. We are conducting a very brief survey of cell phone users. This is not a sales call, and no salesperson will call you in the future. Your information and answers will remain confidential. I will be asking you questions about your use of your cell phone for personal and business matters.

Q1. I would like to record your age. Is your age [READ OPTIONS]?

- 1 Under 18—THANK AND TERMINATE
- 2 18-22
- 3 23-29
- 4 30-39
- 5 40-49
- 6 50-59
- 7 60 & Over
- 8 Don't know (DNR)—THANK AND TERMINATE
- 9 Refused (DNR)—THANK AND TERMINATE

Q2. I'd like to ask about your use of this cell phone for personal and business matters. Using rough approximations, would you say that your use is [READ OPTIONS]

- 1 All or Almost all Personal? [ASK ONLY PERSONAL Q'S—CODED "a"]
- 2 About 75% Personal? [ASK PERSONAL—CODED "a" & BUSINESS—CODED "b" Q'S]
- 3 About half Personal/half Business? [ASK PERS —CODED "a" & BUS.—CODED "b" Q'S]
- 4 About 75% Business? [ASK PERSONAL—CODED "a" & BUSINESS—CODED "b" Q'S]
- 5 All or Almost all Business? [ASK ONLY BUSINESS Q'S—CODED "b"]
- 6 Don't know (DNR)—THANK AND TERMINATE
- 7 Refused (DNR)—THANK AND TERMINATE

Q3. (a & b) With regard to the monthly bill for this cell phone, is it paid by a business in full, in part, or not at all?

- 1 In full
- 2 In part
- 3 Or not at all
- 4 Don't know
- 5 Refused

Q4. Some cell phone customers choose NOT to have traditional local telephone service in their home or office and, instead, use their mobile cellular phone for *all of their calling needs*. Other cell phone customers keep their traditional local service and use both to make calls [IF UNSURE OF WHAT "TRADITIONAL LOCAL TELEPHONE SERVICE" MEANS, READ: By traditional local telephone service we mean dial-tone phone service provided by your local phone company that allows you to make and receive phone calls by plugging your phone into a wall-jack. A cordless phone still counts as a traditional phone. We will refer to this service received at your home and your business "].

(a) Do you currently have traditional local telephone service in your home?

- 1 Yes
- 2 No
- 3 Don't know
- 4 Refused

(b) Do you currently have traditional local telephone service at your business?

- 1 Yes
- 2 No
- 3 Don't know
- 4 Refused

Q5 (a) [IF Q4A IS NO] Did you previously have a traditional local telephone line at your home that was disconnected or terminated because you decided to have a cell phone?

- 1 Yes
- 2 No
- 3 Don't know
- 4 Refused

Q6 (b) [IF Q4B IS NO] Did you previously have a traditional local telephone line at your business that was disconnected or terminated because you decided to have a cell phone?

- 1 Yes
- 2 No
- 3 Don't know
- 4 Refused

Q7 (a) [IF 4A IS NO] If you did not have your cell phone service, would you install and initiate traditional local telephone service at your home?

- 1 Yes
- 2 No
- 3 Don't know
- 4 Refused

Q8 (b) [IF 4B IS NO] If you did not have your cell phone service, would you install and initiate traditional local telephone service at your business?

- 1 Yes
- 2 No
- 3 Don't know
- 4 Refused

Now, consider the way in which you use your cell phone

Q9. (a) Do you make or receive phone calls on this cell phone that you would otherwise make or receive using your traditional local telephone service at your home?

- 1 Yes
- 2 No
- 3 Don't know
- 4 Refused

Q10 (b) Do you make or receive phone calls on this cell phone that you would otherwise make or receive using your traditional local telephone service at your business?

- 1 Yes
- 2 No
- 3 Don't know
- 4 Refused

Q11. (a) [IF Q9 IS YES] Approximately what percent of calls that you make or receive on your cell phone would you make or receive using your traditional local telephone service at your home if your cell phone was not available?

- 1 None
- 2 Less than 25%
- 3 About 50%
- 4 About 75%
- 5 All or almost all
- 6 Don't know
- 7 Refused

Q12 (b) [IF Q10 IS YES] Approximately what percent of calls that you make or receive on your cell phone would you make or receive using your traditional local telephone service at your business if your cell phone was not available?

- 1 None
- 2 Less than 25%
- 3 About 50%
- 4 About 75%
- 5 All or almost all
- 6 Don't know
- 7 Refused

Q13 (a) When you give out your phone number, do you typically give your cell phone number, traditional local phone number, or both to your personal contacts?

- 1 Cell Phone Number
- 2 Traditional Local Phone Number
- 3 Both
- 4 Don't know
- 5 Refused

Q14. (b) When you give out your phone number, do you typically give your cell phone number, traditional local phone number, or both to your business contacts?

- 1 Cell Phone Number
- 2 Traditional Local Phone Number
- 3 Both
- 4 Don't know
- 5 Refused

Now just a few final questions for statistical purposes...

- Q15. (a & b) In what city do you live?
- Q16 (b) What is your line of business?
- Q17 (b) What is your position/job title?
- Q18. (a & b) I'd like to verify your phone number. (VERIFY FROM CALL LIST AND RECORD)
- Q19 (a & b) Sex (BY OBSERVATION)
- 1 Male
 - 2 Female
- Q20 (a & b) Area (RECORD FROM SAMPLE)
- 1 Group 1
 - 2 Group 2
 - 3 Group 3
 - 4 Group 4
 - 5 Group 5
 - 6 Group 6
 - 7 Group 7
- Q21. (a & b) Cell phone service provider (RECORD FROM SAMPLE)
- 1 AT&T
 - 2 CellCom
 - 3 Cellular 29
 - 4 Cricket Communications
 - 5 Great Lakes of Iowa
 - 6 Iowa Wireless
 - 7 Lyrinx
 - 8 Midwest Wireless
 - 9 NEXTEL
 - 10 Qwest Wireless
 - 11 Sprint
 - 12 Swiftel
 - 13 T-Mobile
 - 14 Tracfone
 - 15 U S Cellular
 - 16 Verizon
 - 17 Virgin
 - 18 VoiceStream
 - 19 Western Wireless

Results of Survey of Wireless Users in 7 Groups of Qwest Exchanges in Iowa
Conducted by Voter/Consumer Research, Inc.
Directed by Harry M. Shooshan, III, of Strategic Policy Research, Inc.

(a) questions answered by respondents with some or exclusive personal usage
(b) questions answered by respondents with some or exclusive business usage

Q1 (a & b) I would like to record your age Is your age ?

	Total	Group 1		Group 2		Group 3		Group 4		Group 5		Group 6		Group 7	
		Bus	Pers	Bus	Pers	Bus	Pers	Bus	Pers	Bus	Pers	Bus	Pers	Bus	Pers
N	1,013	58	117	81	120	101	139	102	121	76	133	85	133	80	131
18-22	17.2%	15.5%	25.6%	9.9%	18.3%	15.8%	20.1%	13.7%	25.6%	7.9%	15.0%	16.5%	22.6%	11.3%	19.1%
23-29	17.8%	15.5%	21.4%	12.3%	13.3%	7.9%	13.7%	8.8%	12.4%	17.1%	14.3%	15.3%	21.8%	20.0%	16.8%
30-39	26.7%	19.0%	15.4%	24.7%	23.3%	21.8%	20.1%	22.5%	17.4%	32.9%	31.6%	28.2%	27.8%	28.8%	26.7%
40-49	18.3%	15.5%	12.8%	29.6%	25.8%	26.7%	21.6%	34.3%	26.4%	21.1%	20.3%	20.0%	11.3%	20.0%	18.3%
50-59	14.0%	27.6%	17.1%	18.5%	14.2%	19.8%	18.0%	8.8%	8.3%	15.8%	11.3%	10.6%	8.3%	15.0%	15.3%
60+	6.0%	6.9%	7.7%	4.9%	5.0%	7.9%	6.5%	11.8%	9.9%	5.3%	7.5%	9.4%	8.3%	5.0%	3.8%

Q2. (a & b) I'd like to ask about your use of this cell phone for personal and business matters Using rough approximations, would you say that your use is . . . ?

	Total	Group 1		Group 2		Group 3		Group 4		Group 5		Group 6		Group 7	
		Bus	Pers	Bus	Pers	Bus	Pers	Bus	Pers	Bus	Pers	Bus	Pers	Bus	Pers
N	1,013	58	117	81	120	101	139	102	121	76	133	85	133	80	131
All pers	45.7%		57.3%		45.8%		36.0%		37.2%		56.4%		51.1%		53.4%
75% pers	15.1%	39.7%	19.7%	21.0%	14.2%	25.7%	18.7%	29.4%	24.8%	17.1%	9.8%	32.9%	21.1%	30.0%	18.3%
half/half	19.6%	37.9%	18.8%	40.7%	27.5%	43.6%	31.7%	30.4%	25.6%	42.1%	24.1%	32.9%	21.1%	33.8%	20.6%
75% bus	7.4%	8.6%	4.3%	18.5%	12.5%	18.8%	13.7%	14.7%	12.4%	17.1%	9.8%	10.6%	6.8%	12.5%	7.6%
All bus	12.2%	13.8%		19.8%		11.9%		25.5%		23.7%		23.5%		23.8%	

Q3. (a & b) Does a business pay the bill for this phone . ?

	Total	Group 1		Group 2		Group 3		Group 4		Group 5		Group 6		Group 7	
		Bus	Pers	Bus	Pers	Bus	Pers	Bus	Pers	Bus	Pers	Bus	Pers	Bus	Pers
N	1,013	58	117	81	120	101	139	102	121	76	133	85	133	80	131
In full	24.1%	20.7%	8.5%	39.5%	19.2%	40.6%	25.9%	43.1%	24.0%	40.8%	18.8%	44.7%	17.3%	37.5%	16.0%
In part	5.3%	3.4%	2.6%	7.4%	5.0%	11.9%	9.4%	11.8%	12.4%	7.9%	6.0%	5.9%	3.8%	8.8%	6.9%
Not at all	69.1%	74.1%	88.0%	51.9%	75.0%	44.6%	62.6%	43.1%	62.0%	48.7%	73.7%	47.1%	76.7%	52.5%	77.1%
Don't Know	1.4%	1.7%	0.9%	1.2%	0.8%	3.0%	2.2%	2.0%	1.7%	1.3%	1.5%	2.4%	2.3%	1.3%	0.0%
Refused	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	1.3%	0.0%	0.0%	0.0%	0.0%	0.0%

Q4A (a) Do you currently have traditional local telephone service at your home?

	Total	Group 1	Group 2	Group 3	Group 4	Group 5	Group 6	Group 7
N	894	117	120	139	121	133	133	131
Yes	75.2%	75.2%	81.7%	82.0%	85.1%	72.2%	67.7%	77.9%
No	24.8%	24.8%	18.3%	18.0%	14.9%	27.8%	32.3%	22.1%
Don't Know	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Refused	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Q4B (b) Do you currently have traditional local telephone service at your business?

	Total	Group 1	Group 2	Group 3	Group 4	Group 5	Group 6	Group 7
N	583	58	81	101	102	76	85	80
Yes	73.9%	65.5%	82.7%	85.1%	83.3%	73.7%	74.1%	71.3%
No	23.5%	29.3%	14.8%	12.9%	14.7%	23.7%	23.5%	26.3%
Don't Know	2.0%	3.4%	2.5%	1.0%	2.0%	1.3%	1.2%	2.5%
Refused	0.6%	1.7%	0.0%	1.0%	0.0%	1.3%	1.2%	0.0%

Q5. (a) [IF Q4A IS NO] Did you previously have a traditional local telephone line at your home that was disconnected or terminated because you decided to have a cell phone?

	Total	Group 1	Group 2	Group 3	Group 4	Group 5	Group 6	Group 7
N	203	29	22	25	18	37	43	29
Yes	58.1%	34.5%	45.5%	72.0%	50.0%	64.9%	51.2%	62.1%
No	40.9%	62.1%	50.0%	28.0%	50.0%	35.1%	46.5%	37.9%
Don't Know	0.6%	0.0%	0.0%	0.0%	0.0%	0.0%	2.3%	0.0%
Refused	0.4%	3.4%	4.5%	0.0%	0.0%	0.0%	0.0%	0.0%

Q6 (b) [IF Q4B IS NO] Did you previously have a traditional local telephone line at your business that was disconnected or terminated because you decided to have a cell phone?

	Total	Group 1	Group 2	Group 3	Group 4	Group 5	Group 6	Group 7
N	116	17	12	13	15	18	20	21
Yes	18.9%	17.6%	33.3%	0.0%	33.3%	22.2%	15.0%	19.0%
No	80.4%	76.5%	58.3%	100.0%	60.0%	77.8%	85.0%	81.0%
Don't Know	0.7%	5.9%	8.3%	0.0%	6.7%	0.0%	0.0%	0.0%
Refused	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Q7 (a) [IF 4A IS NO] If you did not have your cell phone service, would you install and initiate traditional local telephone service at your home?

	Total	Group 1	Group 2	Group 3	Group 4	Group 5	Group 6	Group 7
N	203	29	22	25	18	37	43	29
Yes	70.3%	72.4%	68.2%	76.0%	72.2%	51.4%	86.0%	69.0%
No	26.5%	27.6%	22.7%	20.0%	22.2%	45.9%	11.6%	27.6%
Don't Know	3.0%	0.0%	4.5%	4.0%	5.6%	2.7%	2.3%	3.4%
Refused	0.2%	0.0%	4.5%	0.0%	0.0%	0.0%	0.0%	0.0%

Q8. (b) [IF 4B IS NO] If you did not have your cell phone service, would you install and initiate traditional local telephone service at your business?

	Total	Group 1	Group 2	Group 3	Group 4	Group 5	Group 6	Group 7
N	116	17	12	13	15	18	20	21
Yes	44.9%	35.3%	58.3%	53.8%	40.0%	33.3%	45.0%	47.6%
No	48.6%	58.8%	33.3%	38.5%	46.7%	66.7%	40.0%	47.6%
Don't Know	6.5%	5.9%	8.3%	7.7%	13.3%	0.0%	15.0%	4.8%
Refused	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

(a) Do you make or receive phone calls on this cell phone that you would otherwise make or receive using your traditional local telephone service at your home?

Q9.

	Total	Group 1	Group 2	Group 3	Group 4	Group 5	Group 6	Group 7
N	894	117	120	139	121	133	133	131
Yes	81 0%	71 8%	75 8%	79 9%	81 0%	76 7%	82 0%	84 0%
No	17 8%	27 4%	22 5%	18 7%	18 2%	21 8%	16 5%	15 3%
Don't Know	1.1%	0 9%	1 7%	1 4%	0 8%	1 5%	1 5%	0 8%
Refused	0 0%	0 0%	0 0%	0 0%	0 0%	0 0%	0 0%	0.0%

(b) Do you make or receive phone calls on this cell phone that you would otherwise make or receive using your traditional local telephone service at your business?

Q10

	Total	Group 1	Group 2	Group 3	Group 4	Group 5	Group 6	Group 7
N	583	58	81	101	102	76	85	80
Yes	64.9%	65 5%	67.9%	80 2%	72 5%	67.1%	60 0%	63 8%
No	31 8%	29 3%	27 2%	17 8%	27 5%	28 9%	38 8%	32 5%
Don't Know	2 4%	3 4%	4 9%	1 0%	0 0%	1 3%	0 0%	3 8%
Refused	0 8%	1 7%	0 0%	1 0%	0 0%	2 6%	1 2%	0 0%

(a) [IF Q9 IS YES] Approximately what percent of calls that you make or receive on your cell phone would you make or receive using your traditional local telephone service at your home if your cell phone was not available?

Q11

	Total	Group 1	Group 2	Group 3	Group 4	Group 5	Group 6	Group 7
N	705	84	91	111	98	102	109	110
None	2 7%	1.2%	1 1%	1.8%	3 1%	3 9%	4 6%	1 8%
<25%	22 6%	25 0%	19.8%	20 7%	19 4%	25 5%	21 1%	22 7%
About 50%	27.4%	31.0%	29 7%	30.6%	26 5%	29 4%	23.9%	27 3%
About 75%	10.4%	6.0%	9.9%	14.4%	16 3%	7.8%	11.0%	10.9%
Almost/All	35 0%	36.9%	36.3%	29 7%	33.7%	31 4%	37.6%	35.5%
Don't Know	1.9%	0 0%	3 3%	2.7%	1 0%	2 0%	1 8%	1 8%
Refused	0 0%	0.0%	0.0%	0 0%	0 0%	0 0%	0 0%	0.0%

(b) [IF Q10 IS YES] Approximately what percent of calls that you make or receive on your cell phone would you make or receive using your traditional local telephone service at your business if your cell phone was not available?

Q12

	Total	Group 1	Group 2	Group 3	Group 4	Group 5	Group 6	Group 7
N	401	38	55	81	74	51	51	51
None	6.8%	5.3%	3.6%	2.5%	6.8%	9.8%	13.7%	3.9%
<25%	18.0%	21.1%	16.4%	25.9%	25.7%	17.6%	15.7%	17.6%
About 50%	28.2%	21.1%	25.5%	27.2%	29.7%	23.5%	27.5%	31.4%
About 75%	7.0%	2.6%	14.5%	11.1%	9.5%	3.9%	3.9%	7.8%
Almost/All	37.3%	50.0%	36.4%	28.4%	27.0%	43.1%	39.2%	35.3%
Don't Know	1.6%	0.0%	1.8%	3.7%	1.4%	2.0%	0.0%	2.0%
Refused	1.1%	0.0%	1.8%	1.2%	0.0%	0.0%	0.0%	2.0%

(a) When you give out your phone number, do you typically give your cell phone number, traditional local phone number, or both to your personal contacts?

Q13.

	Total	Group 1	Group 2	Group 3	Group 4	Group 5	Group 6	Group 7
N	894	117	120	139	121	133	133	131
Cell phone #	35.2%	35.0%	36.7%	30.2%	29.8%	34.6%	42.1%	32.8%
Trad phone #	23.2%	17.9%	25.0%	24.5%	30.6%	28.6%	20.3%	22.1%
Both	38.2%	44.4%	35.0%	43.2%	37.2%	33.8%	34.6%	41.2%
Don't Know	2.4%	1.7%	3.3%	0.0%	2.5%	2.3%	3.0%	2.3%
Refused	1.0%	9.9%	0.0%	2.2%	0.0%	0.8%	0.0%	1.5%

(b) When you give out your phone number, do you typically give your cell phone number, traditional local phone number, or both to your business contacts?

Q14

	Total	Group 1	Group 2	Group 3	Group 4	Group 5	Group 6	Group 7
N	583	58	81	101	102	76	85	80
Cell phone #	37.0%	29.3%	32.1%	24.8%	25.5%	36.8%	35.3%	41.3%
Trad phone #	14.1%	10.3%	18.5%	25.7%	23.5%	11.8%	22.4%	8.8%
Both	40.7%	51.7%	43.2%	47.5%	48.0%	38.2%	34.1%	42.5%
Don't Know	6.3%	1.7%	3.7%	2.0%	2.9%	9.2%	7.1%	6.3%
Refused	1.9%	6.9%	2.5%	0.0%	0.0%	3.9%	1.2%	1.3%

Press
Release

Leap Continues to Lead National Trend of "Cord Cutters"
~ Company Research Reveals that 37 Percent of Cricket Customers do not have Landline Service ~

SAN DIEGO - May 12, 2003 - Leap Wireless International, Inc. (OTCBB: LWIN), an innovator of wireless communications services, today announced that the results of a nationwide company survey revealed 37 percent of Cricket customers do not have regular phone service at home. This compares to 26 percent in June 2002.

"This significant increase among our customer base in less than a year demonstrates that we continue to lead a trend in shifting landline minutes to wireless minutes," said Harvey P. White, Leap's chairman and CEO. "We believe that more and more of our customers see the value in our Cricket product offering and are taking to heart 'Why pay for two when one will do?'"

The company study, conducted by an independent research firm, polled approximately 3,000 customers across all 40 of the company's markets and has a margin of error of plus or minus 1.7 percent. Of those Cricket customers who reported having no regular phone at home:

56 percent were between the ages of 18 and 34
75 percent were single, and
51 percent lived in one- or two-person households.

"Cricket service is at the forefront in driving the landline replacement trend," said Roger Entner, Program Manager, Wireless/Mobile Services with the Yankee Group. "Cricket service provides an effective solution for people who choose to use their mobile phone as their only phone and forego traditional home phone service."

According to the Yankee Group's 2002 Mobile User Study, only three percent of wireless customers have gone completely wireless. While the Yankee Group reports that not everyone has cut the cord, the growing reliance on wireless phones has already displaced 25 percent of U.S. landline phone minutes - a number that is expected to rise to 35 percent by 2004.

As the pioneer and market leader in providing affordable mobile services, Cricket continues to change the way that people communicate with its flat-rate, unlimited local wireless service:

- Cricket leads the national trend shifting calls and minutes from traditional landline service to wireless phones with 86 percent of Cricket customers in this survey reporting that they use Cricket as their primary phone. According to the Yankee Group, more than half of cell phones users use them as their primary device for private voice communication.
- Cricket customers talk an average of more than 1,200 minutes a month compared to the average U.S. subscriber who logs about 490 minutes of use per month.

Cricket service is available in 40 markets in 20 states stretching from New York to California. With more than 1.5 million customers as of December 31, 2002, Leap is the ninth largest service provider in the U.S. in terms of customers.

About Cricket Service

With Cricket® service, customers can make unlimited calls over their service area for a low, flat rate. Cricket customers can call long distance



Printable Version

anywhere for a little more - just 8 cents per minute to anywhere in the United States and just 18 cents per minute anytime to anywhere in Mexico or Canada. The service offers text messaging, voicemail, caller ID, three-way calling and call waiting for a small additional monthly fee.

Cricket also offers downloadable Ringtones. The extra value Cricket® Talk rate plan is \$39.99 per month plus tax, which includes unlimited local calls, 500 free minutes of U.S. long distance and a three-feature package (including caller ID, call waiting and three-way calling). Cricket service is an affordable wireless alternative to traditional landline service, and appeals to people completely new to wireless - from students to young families and local business people. For more information, please visit www.mycricket.com.

About Leap

Leap, headquartered in San Diego, Calif., is a customer-focused company providing innovative communications services for the mass market. Leap pioneered the Cricket Comfortable Wireless® service that lets customers make all of their local calls from within their local calling area and receive calls from anywhere for one low, flat rate. For more information, please visit www.leapwireless.com.

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